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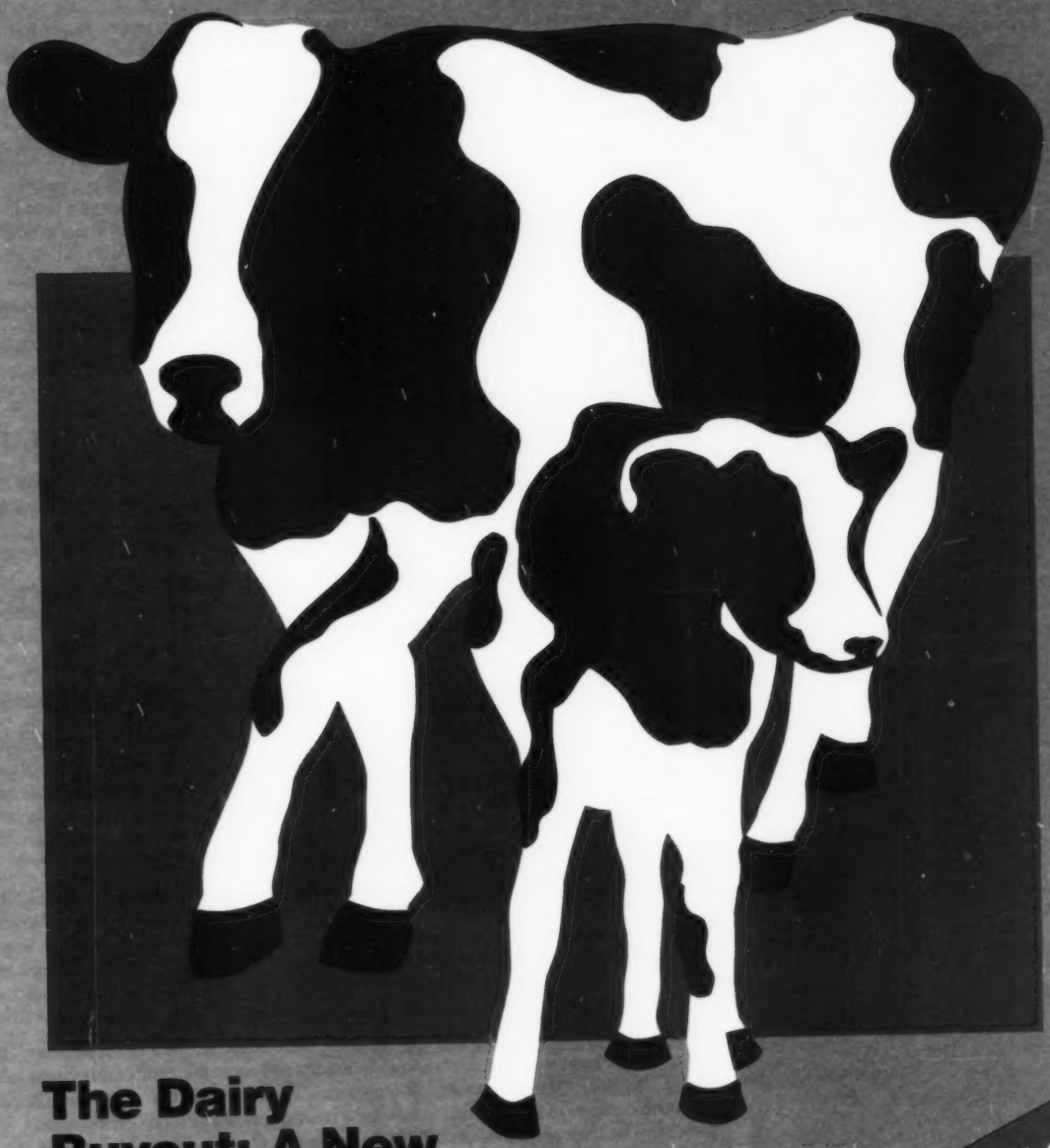

The Dairy Buyout: A New Approach To an Old Problem

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PERSPECTIVES

IN THE 25 YEARS THE ECONOMIC RESEARCH SERVICE HAS EXISTED, there have been six Presidents, nine farm bills, seven Secretaries of Agriculture, and a continually changing agenda of key agricultural issues. Much of the analysis that has come from ERS has been critical to the day-to-day workings of the agricultural sector, while other research has laid the groundwork for farm policy and the study of future problems. But what exactly has ERS done that the average American would see as, well, important? For some answers, we interviewed Wayne Rasmussen, an Agriculture Department historian for more than 45 years. His reflections on ERS begin before the agency (in its current structure) was formed in April 1961. He traces some accomplishments way back to 1922, when the old Bureau of Agricultural Economics (ERS' predecessor agency) took shape.

"One of the very early accomplishments was recognizing that farmers needed economic information in order to make decisions. This led to the first Outlook Conference in 1923. Prior to that, farmers got some information on the economics of managing and running a farm from USDA's Office of Farm Management and the Extension Service. But as far as world crop prospects, or even national prospects for the various crops, farmers really didn't know what to expect. It became very apparent that for farmers to formulate their cropping plans, they'd have to have information on commodity supplies and prices. Farmers were at a disadvantage in not knowing. Big grain buyers, for example, had the resources to get this kind of information, but no individual farmer could possibly collect all of it. USDA outlook information helped create a level playing field between the sellers and buyers of farm products."

Today, outlook information is a major thrust of ERS. Using it, "people should be able to make better decisions," says economist John Lee, current administrator of ERS. "The basic purpose," Lee continues, "is to share what is known. That's why we have an Outlook Conference, to bring together expertise from all over the country with what we know (in ERS) and get the best possible information to people out in the country. It's also why we publish some 90 outlook reports a year on subjects ranging from exports to commodities to foreign agriculture."

"Whether dealing with farmers, agribusiness, USDA policymakers, the White House, Congress, state and local governments, or consumers, our real job is helping people understand the economic environment in which they operate and the factors affecting that environment," Lee says.

"Our audience isn't aware that most of the numbers and much of the analysis they see in the farm press are generated right here in ERS, or its sister agencies," historian Rasmussen continues. Some examples: the GNP (Gross National Product) numbers for the agricultural sector; virtually everything on farm income and expenditures — production receipts, debt, asset values; farm export values; supply and demand for commodities; natural resource information such as land use, water use, input supply and demand; foreign regional commodity information; and a variety of rural sociological and economic data — the number of beds in hospitals, the components of the population by age, race, and gender.

The agency has had its share of "firsts," according to Rasmussen. "In the 1960's, ERS broke ground in recognizing the importance of the world food supply to the United States. We were the first to put together comprehensive information on the subject, to actually measure the world food supply and anticipated world food needs." And in 1973, "Calvin Beale, chief demographer in ERS, was the first researcher in the nation to document the trend of rural immigration — that there were more people moving into rural areas than into cities."

Looking ahead, what does Rasmussen see as the most important focus of the agency? "There will be a great emphasis on understanding our exports and economic competition on the world market," he says. "Also, the question of biogenetics. Farm structure, size, and the number of farms will continue to be important. And I see a renewed interest in rural development. Something we must come to terms with is the economics of protecting the environment."

"A lot of people out there are doing this or that piece of work similar to a piece that's being done in ERS," Lee says, "but you won't find any other place that has the same comprehensive national and world scope or the same broad responsibility to represent not a private business interest nor a particular political interest, but the general interest of society."

FARMLINE

AGRICULTURE . . . NATURAL RESOURCES . . . RURAL DEVELOPMENT
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Policymakers are tackling the ongoing problem of milk surpluses with two new government programs: one that lowers support prices, and one that is buying entire dairy herds. Economists Cliff Carman and Jim Miller explain how the programs are designed to work and offer some thoughts on what the impacts will be.

Cotton's Comeback with Consumers *by Ellen Banker* 10

Americans bought more cotton in clothing and other textiles last year than they have in over a decade. Why all the popularity? Three major reasons: advertising and promotion, consumer preference, and price.

Competing for the Colombian Market *by Doug Martinez* 12

Colombia is one of the top Latin American markets for U.S. agricultural exports. Our farm exports have increased five-fold since 1970 and are expected to go much higher in the years ahead, but the competition will be tough.

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Americans are eating more but spending less of their incomes on food. This special chart page takes a look at some gainers and losers among foods, the American calorie count, and food spending.

The Dairy Buyout: A New Approach To an Old Problem

Once again the floodgates opened up on milk production last year, after the dairy diversion program reduced output in 1984. With 1985's surplus still a fresh memory, the question is: Will dairy provisions in the new farm bill curb the tide of milk?

Milk production rose to a record 143.7 billion pounds in 1985, up from about 135 billion in 1984 and 140 billion pounds in 1983. Along with larger production, government purchases of surplus dairy products climbed to 13.2 billion pounds last year, up from 8.6 billion in 1984 but down from 1983's record 16.8 billion pounds.

The 1984 diversion program, which paid farmers not to market milk, provided only short-term relief.

"The diversion program did what it was designed to do, not what people hoped it would do," says Cliff Carman, a dairy analyst for USDA's Economic Research Service.

"It was just a respite, not a solution to overproduction. The program contributed to a short-term drop in milk output, but the production resources, dairy herds and facilities, weren't significantly changed."

Carman says some farmers were able to trim milk production without slaughtering as many cows as originally anticipated. So, within 3 months after the program ended, they were able to substantially increase production.

Also, low feed grain prices encouraged farmers who were not participating in the program to maintain their herds and increase milk output by feeding more to each animal, Carman notes.

While the 1984 program provided only temporary relief, dairy provisions of the Food Security Act of 1985 (the official name for the new farm bill) aim for reductions in dairy surpluses through the rest of the decade.

Help for Surpluses in 1986

The Food Security Act seeks to cut milk surpluses through changes in the support price farmers receive for their milk and through the whole herd buyout program,

Farmers staying in dairying will bear about 38 percent of the cost of the buyout program.

which encourages some dairy farmers to leave the industry.

Under the legislation, the 1986 support price for milk is to remain at its current level of $11.60 per cwt. Then, there are a series of scheduled price reductions: On January 1, 1987, the support price will drop to $11.35, and on October 1, 1987, it will be lowered to $11.10, where it may remain through December 31, 1990.

Certain conditions, however, could cause a variation in the level of support during 1988-90. The milk support price in these 3 years is directly tied to success in reducing government purchases of dairy products. Depending on the level of estimated government purchases, the support price could rise or fall by 50 cents each year. Therefore, the support price could be as low as $9.60 or as high as $12.60 by 1990.

The dairy provisions of the legislation also require producers to pay 40 cents per cwt on all the milk they market during April 1 through December 31, 1986. The deduction will drop to 25 cents per cwt during January 1 through September 30, 1987. The deductions were instituted to offset some of the costs of the whole herd buyout program.

On top of 40-cent deductions and falling support prices, the Gramm-Rudman-Hollings deficit reduction law will further shrink dairy farmers' paychecks. To offset rising government expenditures, the law requires milk producers to pay up to an additional 12 cents per cwt during April 1 through September 30, 1986.

After subtracting the deductions, the average price for all milk in 1986 could be $11.75 to $12.15 per cwt, down from $12.61 in 1985 and $12.95 in 1984.

The average price doesn't match the support price because prices vary with the grade of milk. The $11.60 support price is the price for manufacturing grade milk, which must be processed into items such as butter, cheese, and nonfat dry milk.

Milk that meets the higher sanitary standards for fluid use commands higher prices and raises the average price for all milk.

"The projected effective price range ($11.75 to $12.15) only corrects for the legislated deductions. It doesn't include deductions for dairy product promotion, which are now 15 cents per cwt, or the farmer's transportation costs of delivering milk to the plant," Carman says. "Taking these factors into account lowers the farmer's returns even further."

How the Buyout Works

Falling milk prices likely figured heavily in producers' decisions to participate in the whole herd buyout program, which began April 1, 1986.

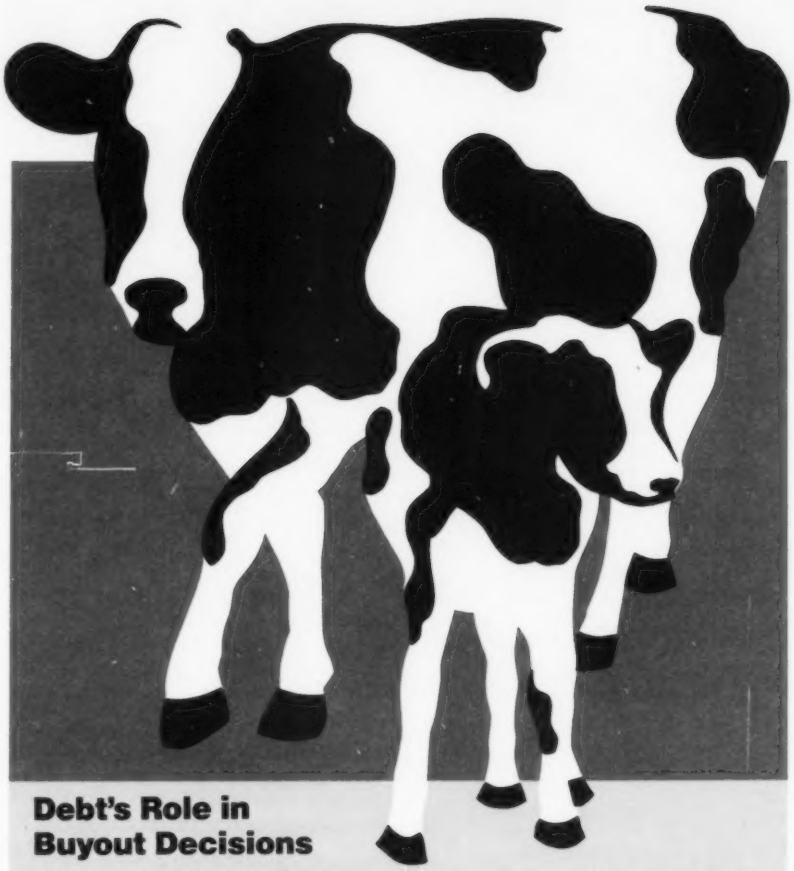
Program signup ran from February 10 through March 7. Producers interested in participating submitted bids based on 1 year's production from their herds to USDA's Agricultural Stabilization and Conservation Service.

USDA tentatively accepted 13,988 bids from a total of 105,700 bids by 39,534 dairy farmers. Multiple bids were possible because herd liquidation is to be spaced over three periods (April-August 1986, September 1986-February 1987, and March-August 1987), and some producers submitted one bid for each period.

Producers submitted bids based on their marketings of milk during July 1984 through June 1985, or their calendar 1985 marketings, whichever total was smaller. The bidding farmers marketed about 33 billion pounds of milk in 1985, about 23.5 percent of the U.S. total.

Bids were in terms of cwt of milk and ranged from $3.40 to over $1,000. The maximum bid accepted was $22.50. Payments to farmers will be spread over 5 years.

What changes will the payments buy? Those whose bids have been accepted will



Debt's Role in Buyout Decisions

Although it may be difficult to fathom the motives of those who signed up for the whole herd buyout program, economists suspect that debt played a role in many decisions.

"Some farmers may have felt they did not have a choice about program participation. Large debts and the need for family income may have forced some producers to sign up. Some of the decisions may virtually have been made by lenders, instead of dairy farmers," says dairy analyst Cliff Carman.

Sizable numbers of milk producers have been under financial stress for some time. At the start of 1985, 21 percent of U.S. dairy farms had debt-to-asset ratios of 40 to 70 percent, and 11 percent had debt-to-asset ratios of over 70 percent. Three percent of the dairy farms were technically insolvent, with debts amounting to more than 100 percent of the value of their assets.

Because of lower feed costs, last year wasn't quite as bad as 1984 on the returns side, but debt problems probably worsened as a result of further declines in asset values.

For some dairy farmers, then, the buyout program may have offered the choice of getting paid for going out of business or just going under. However, once a farmer is out of dairying, alternative jobs in and out of agriculture may be difficult to find.

"In the Northeast and Midwest, where many dairy farms are located, off-farm opportunities are limited. For example, hiring in the U.S. auto industry is low, and new jobs aren't being created. The lack of alternatives may have kept some dairy farmers out of the program," Carman says.

have to end all milk production and stay out of dairying for the 5 years the government is paying them. All the female dairy cattle they own have to be slaughtered or exported, and they may not allow other dairy farmers to use their facilities during that time.

The outcome of the signup slightly exceeded the legislated target. The farm bill targeted a 12-billion-pound reduction in milk output over the course of the three liquidation periods. Bids totaling 12.3 billion pounds were tentatively accepted. Actual milk production probably won't drop by the full 12.3 billion, because some nonparticipating farmers are expected to expand production.

This drop in production will cost USDA a total of $1.8 billion spread over 5 years. But the 40-cent and 25-cent deductions mandated by the new farm bill will take $650-$700 million off the cost. This means that farmers staying in dairying will bear about 38 percent of the cost of the buyout program.

According to dairy analyst Jim Miller, also with the Economic Research Service, the bids varied greatly.

"Most of the successful bidders were probably producers willing to leave dairying early," Miller says. "A producer with worn out facilities who can find good alternative employment or is close to retiring could bid much less than a producer with newer facilities who's not ready to retire."

Impact on the Meat Market

The buyout program raises a concern that goes beyond the effects on the dairy industry. The slaughter of additional cows seems to threaten an already burdened red meat industry. However, the farm bill attempts to deal with this situation.

The dairy provisions require the Secretary of Agriculture to estimate the number of additional cows likely to be slaughtered because of the new program and to schedule the slaughtering in such a way as to have the least impact on the red meat industry. The three liquidation periods are the response to this requirement.

(continued on next page)

Commercial use of all milk and dairy products rose more than 6 percent between 1983 and 1985. School-age children are a primary market.

"Asking producers to elect one of these periods allows USDA to control the number of cows going to market, thereby not flooding the market with meat and driving prices down," Carman says.

"However, many of the bidders elected the first period," Miller adds. "Therefore, much of the extra meat supplies will show up this spring and summer."

The law also requires USDA to buy an additional 400 million pounds of red meat. Half of it will be exported and the other half will be donated to domestic feeding programs, such as the school lunch program.

"The important issue is that USDA get in and remove a large share of the extra meat in the first 6 months, particularly during the spring quarter when the largest number of cows will likely be slaughtered," says livestock analyst Ron Gustafson.

April estimates indicate that, because of the dairy program, beef supplies will rise 3 to 4 percent this spring and about 3 percent this summer.

"Federal red meat purchases this spring and summer will be used in the domestic feeding programs later in the year, when the impact of the herd buydown will be negligible," Gustafson says.

"As for exports," Gustafson continues, "USDA has made a strong commitment to remove 200 million pounds of red meat from the market through exports or possibly U.S. military commissaries overseas. In addition, some live cows from the buyout program are likely to be exported."

Despite the expected increase in slaughter and concerns over excess meat, according to Gustafson, meat supplies are expected to be down in 1986 — but not down as much as previously forecast.

A Better Balance?

Whether the new program will pay off with a better balance between supply and demand in the dairy industry remains to be seen, according to Carman.

"Even with a successful program, milk production will probably rise slightly this year because the program wasn't in effect this winter and not all participating producers will leave the industry at once," he says. "However, the program may keep the rise in milk production below the expected rise in commercial use, giving sales a chance to cut into the surpluses."

The increase in 1986 milk production will also depend on the lower feed grain prices expected this fall.

"If corn prices are low this fall, dairy farmers could still profitably feed their cows at the lower support price," Carman says. "This prospect may have encouraged some farmers to stay in dairying, regardless of the buyout option." □

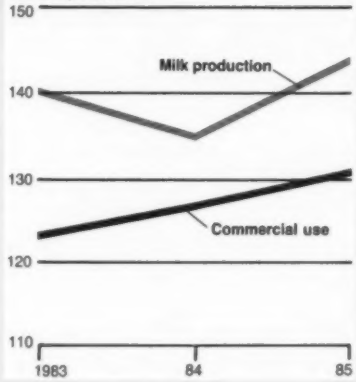
[Based on information provided by economists Cliff Carman, Jim Miller, and Ron Gustafson of the National Economics Division, Economic Research Service.]

A Sales Boom?

While output of milk and dairy products continues to exceed consumption, commercial use is on the rise. Some analysts even call it a sales boom. Perhaps the American lifestyle is swinging back toward the use of dairy products.

Commercial use of all milk and dairy products (milkfat-equivalent basis) in 1985 rose more than 3 percent from a year earlier. The gain from 1983 to 1984 was also over 3 percent. Therefore, growth in sales showed the largest 2-year increase since the early 1940's.

Milk Production Rebounded in 1985, But Commercial Use Also Increased



"Commercial use has been on a fairly strong uptrend since late in 1983, and last year's increase was large. Declines in inflation-adjusted dairy prices, an improving economy, and recently expanded promotion efforts are the roots of the uptrend," says dairy analyst Jim Miller.

Concern over the lack of calcium in women's diets (potentially leading to osteoporosis, a bone-destroying disease) may affect future dairy consumption.

"Young women are low dairy product consumers, and many drink virtually no milk," Miller says. "It's a tough market, but it's also one that claims to be health conscious. Whether health concerns will make them change their ways remains to be seen."

In any case, Miller is convinced that prospects favor continued gains in dairy product sales. "If we can get production down and keep it down, commercial use will catch up," he says.

Absorbing Large Capital Losses

Agriculture does not have an income problem today as much as it has a problem of absorbing large capital losses. This conclusion emerges from a careful review of data on financial conditions in the farm sector. The data, from a recently published report covering 1984 and earlier years, reveal the following:

- The farm sector's net cash income (cash receipts minus cash expenses) has been on a slow, but fairly steady, upward trend since 1977. In 1984, net cash income reached an all-time high of $39.2 billion, up $900 million from 1983.

- While net cash income continued to move upward, the farm sector's balance sheet deteriorated in the 1980's. After rising steadily in the 1960's and 1970's, the equity of farm asset owners fell about 20 percent from 1980 to 1984, slipping to the lowest level since 1978. This occurred partly because of rising debts—though debt dropped slightly in 1984—but mostly because of falling farm asset values. Assets dropped from a peak of more than $1.1 trillion to about $956 billion in 1984. This largely reflected sharp declines in farm real estate values, which account for about three-fourths of agriculture's assets.

An overall view of agriculture's financial condition may obscure the problems of individual groups of farmers, but it does indicate that farming is still a basically profitable activity. Returns to farming have remained relatively stable over recent decades. However, returns to investments in farm assets, particularly land, have deteriorated. The drop in farm sector equity has been especially painful for those farmers who accumulated large debts investing in farm assets in the late 1970's, and who counted on borrowing against continued capital gains to meet cash flow needs.

This report treats the entire farm sector as a single business enterprise, providing various statistical measures of earnings, expenses, assets, and liabilities—all at the national level.

Economic Indicators of the Farm Sector: National Financial Summary, 1984, *formerly titled* ***Income and Balance Sheet Statistics.*** *(Published January 1986; 85 pages, mostly data tables; GPO Stock No. 701-015-00004-5; $5.00.)*

Yardsticks of Performance

Among the most important yardsticks of American agriculture's performance are trends in production and efficiency. Here are some recently published measurements, updated to 1984, on how the farm sector has been doing:

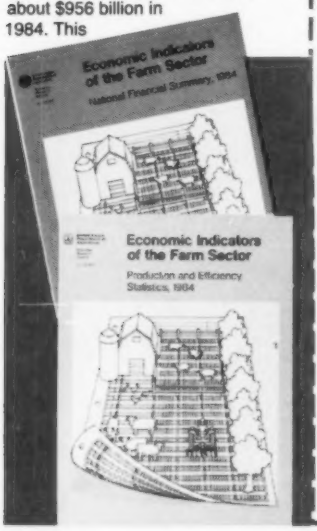
- Total U.S. farm output doubled between the early 1940's and the early 1980's. Although 1984 production recovered from 1983's depressed level, it did not match the peaks of 1981 and 1982.

- Crops were harvested on 348 million acres in 1984. Acreages were greater in 1980, 1981, and 1982. Before that, however, you'd have to go back to 1952 for a higher figure. An estimated 111 million acres—around one-third of the 1984 total—were used to produce crops for the export market. In 1950, only 50 million out of 345 million crop acres—about 1 in 7—were harvested for export.

- On average, each person working on a U.S. farm—including farm operators, family helpers, and hired workers—produced enough agricultural products for an estimated 77 people in 1984. That total includes 57 Americans and 20 people abroad. In 1960, the average U.S. farm worker produced enough to supply only around 26 people here and abroad.

- An estimated 3.7 billion hours of labor were used on farms in 1984. It took 2.2 billion hours to grow crops, roughly 1 billion hours to raise livestock, and around 500 million hours to handle overhead and miscellaneous operations.

Economic Indicators of the Farm Sector: Production and Efficiency Statistics, 1984. *(Published February 1986; 68 pages, mostly data tables; GPO Stock No. 701-015-00005-3; $5.00.)*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Fighting Back Against Famine

Famine, or the threat of famine, continues to haunt a number of less developed nations—and particularly those in the drier parts of Africa. What can they do in coming years to help themselves?

They can't easily look for lessons in the relative security of the industrialized world. If the wealth, resources, climate, and technological advantages of North America and Europe are needed to reduce vulnerability, then periodic famine in Sub-Saharan Africa might be inevitable.

The inevitability of famine, however, is not an idea easily accepted by economist Carl Mabbs-Zeno of USDA's Economic Research Service.

Although severe droughts will continue to occur in Africa, the high malnutrition and starvation death rates associated with famine can be avoided, he contends.

He points to some of the lessons learned in recent years by India, Bangladesh, China, and other nations once prone to frequent famines. These lessons, he suggests, can probably be transferred to Sub-Saharan Africa where many people, even in normal crop years, live on the edge of starvation. Strategies to reduce vulnerability vary, but some common elements emerge as important:

- local food storage systems, including storage facilities and emergency food reserves stockpiled during good crop years.
- improved transportation systems for getting food from surplus to shortage areas.
- an accurate system for monitoring crop supplies, food deficits, and food price movements. Systems that depend on unverified reports by local officials or production managers can be dangerously misleading, especially if these same officials are held responsible for meeting government quotas.
- avoidance of overemphasis on nonfood export crops, such as cotton or coffee, that may take too many resources away from basic food crop production.
- programs to encourage greater self-sufficiency and further diversification in staple food crops to avoid overdependence on food imports or on a single basic food crop.
- incentives for producers. Policies that hold food prices down by keeping farm prices low can be self-defeating for a food-deficit nation.
- policies to protect soil productivity, particularly if fertile land is at a premium.
- a system to get useful information out to farmers on soil conservation, better production practices, and market prices and policies.

Acreage Plans for 1986

The season's first official look at spring planting prospects suggested that farmers were planning small to moderate acreage reductions for most major field crops.

Overall, farmers reported intentions to plant around 336 million acres to 15 major field crops, a 4-percent decline from the 349 million acres seeded in 1985.

"The figures, of course, will change," notes economist Larry Van Meir of the Economic Research Service. About 45,000 growers were surveyed in early March, just before the signup began for this year's acreage reduction programs. Final decisions on program participation add to the usual uncertainties accompanying any early survey of farmers' intentions.

"We expect participation in the programs to be higher than it was last year. If participation is significantly higher, that would imply a larger reduction in plantings than the survey indicated," says Van Meir. "For a good reading on planted acreage, however, we'll have to wait until July 11 when USDA's Crop Reporting Board publishes the results of its June acreage survey."

In USDA's March *Prospective Plantings* report, farmers said they intended to:

- cut feed grain acreage about 5 percent, from 128 million acres in 1985 to about 121 million this year.
- reduce both soybean and sunflower plantings to the lowest levels since 1977. Based on the intentions for spring-planted wheat and last fall's seedings of winter wheat, all-wheat acreage would be the lowest since 1978.
- cut corn acreage to the lowest level (barring the 1983 PIK year) since 1974, and cotton to the lowest (barring 1983) since 1975.
- increase plantings of oats, pima cotton, hay, dry edible beans, and sugar beets.

"Although acreage will be down for two-thirds of these crops and more land will be held out of production than last year, the indicated reductions are not as great as many observers had expected. Good weather and high yields could mean another fairly large harvest," says Van Meir.

"We'll be ending the 1985/86 marketing year with record-large stocks of wheat and feed grains. Another large harvest would make it very difficult to significantly cut these stocks during the upcoming 1986/87 season."

Producers Report Preliminary Planting Intentions[1]

	1985 planted acreage	1986 planting intentions	Change, 1985 to 1986
	thousands of acres		percent
Corn	83,348	78,066	−6.3
Sorghum	18,285	15,853	−13.3
Oats	13,270	14,435	+8.8
Barley	13,106	12,859	−1.9
All wheat	75,575	71,101	−5.9
Winter	57,752	53,992	−6.5
Durum	3,207	2,920	−8.9
Other spring	14,616	14,189	−2.9
Rice	2,522	2,270	−10.0
Soybeans	63,130	62,045	−1.7
Peanuts	1,492	1,445	−3.2
Sunflower	3,055	2,605	−14.7
All cotton	10,709	9,711	−9.3
Upland	10,625	9,613	−9.5
American-Pima	83.8	98.0	+16.9
Hay[2]	60,553	60,933	+0.6
Dry edible beans	1,576	1,745	+10.7
Sweet potatoes	109.8	104.5	−4.8
Tobacco[2]	701.0	648.7	−7.5
Sugar beets	1,125	1,186	+5.5

[1]Based on a voluntary survey of about 45,000 growers in early March.

[2]Area harvested.

If the vulnerable nations avoid future famines, it will only be because they have made a long-term commitment to take the necessary steps.

• recognition on the part of governments that agriculture plays a vital role in the economy, so that resource allocation decisions do not automatically favor industrial development at the expense of long-term productivity gains in agriculture.

To all this, economist Mabbs-Zeno adds: "The history of famine is conspicuous for the presence of war. War or civil strife has been a factor in some of the worst famines on record."

Another factor has been internal politics that favor urban over rural populations, or majority groups over religious, racial, or political minorities. The avoidance of famine, he maintains, presupposes a political commitment on the part of a nation's leaders to feed the population.

Political systems in which the people can hold officials responsible for their actions may have a built-in advantage. India's democratic style of government, for example, is given credit for "motivating national leaders to respond vigorously to local food shortages," he notes.

Mabbs-Zeno's study shows thousands of famines touching almost every part of the globe over the last 2,000 years. Today, he says, science offers some tools for famine protection. New seed varieties may be more resistant to drought. Because of modern pesticides and biological controls, locusts and other insects no longer present quite the threat they once did.

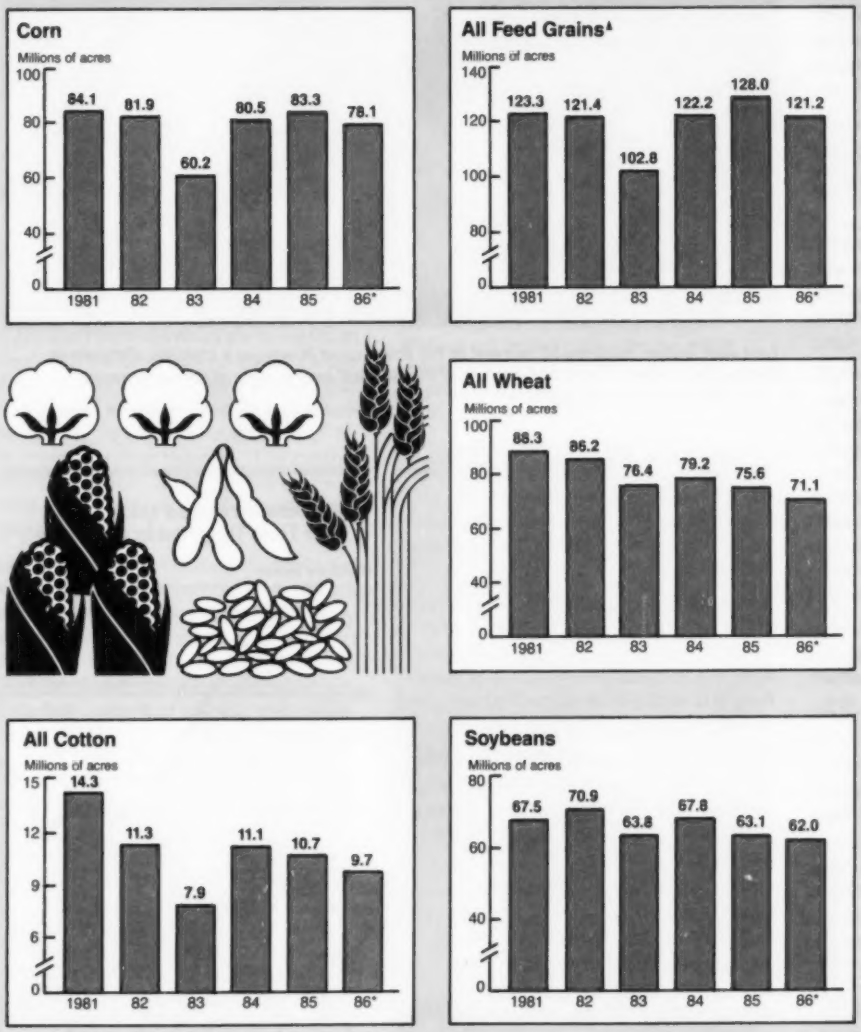
The consequences of famine, too, are somewhat more manageable. Modern pharmaceuticals are often able to contain the epidemics of typhus, cholera, and dysentery that were once major causes of famine deaths. Combined with emergency aid programs, this scientific progress has reduced the likelihood of famine in all countries of the world.

Nevertheless, science cannot prevent inevitable variations in weather and crops, and the consequences of these variations can still be enormous. Because natural uncertainties are unavoidable, Carl Mabbs-Zeno emphasizes the importance of overcoming the continuing political and economic problems that limit an effective response to food crises.

"If the vulnerable nations avoid another famine, it will only be because they have taken the steps to prevent it," he says.

In his view, public policies based on the successful experiences of other less developed countries—policies that anticipate and prepare for crop shortfalls—are the best insurance for preventing future food shortages from quickly turning into famines.

The emphasis here is on the word "insurance," he cautions, because history shows that no nation—rich or poor—can claim complete protection from famine.



*Planting intentions. ▲Includes corn, sorghum, barley, and oats.

Cotton's Comeback with Consumers

Very few analysts predicted it would happen, but Americans bought more cotton in clothing and other textiles last year than they have in over a decade.

Although the figures are still preliminary, USDA analysts have pegged the per capita use of cotton at 17.2 pounds for 1985. Use could jump to nearly 20 pounds this year, according to USDA economist Terry Townsend of the Economic Research Service. And, during the next few years, Townsend says, it could easily match the levels of the early 1970's, when each American used over 20 pounds of the natural fiber.

Why all the popularity?

According to Townsend, there are three major reasons: advertising and promotion, consumer preference, and price.

Advertising is difficult to assess, but cotton industry officials believe that it has made a tremendous impact, "and considering the numbers we're seeing, that's a hard fact to dispute," he says.

Cotton producers actually underwrite their own advertising campaigns. For each bale of U.S. cotton sold, the farmer pays a fee for advertising and promotion. The money is channeled through Cotton, Inc., the producers' marketing and research company, and it's spent on such projects as product development, technical and marketing research, export promotion, and advertising.

The industry's "Seal of Cotton," now commonly seen on tags attached to domestically manufactured clothing and other products, is an example of what a successful advertising campaign can do.

Cotton's Seal of Recognition

The cotton seal is now one of the most recognizable symbols in industry, according to Hal Brockman, a senior vice president of Cotton, Inc. Last year, in a survey sponsored by Cotton, Inc., 80 percent of the Americans polled recognized the seal, which was developed by the company in 1972. Results of the first recognition survey, taken in 1973 after only 1 year of use, found that 18 percent of the people polled knew what the seal represented. "We've come a long way," Brockman says.

Last year, cotton made up 33 percent of the fibers used in women's clothing. Officials at Cotton, Inc., believe this 100-percent cotton outfit will be the style of things to come.
Photo courtesy of Cotton, Inc.

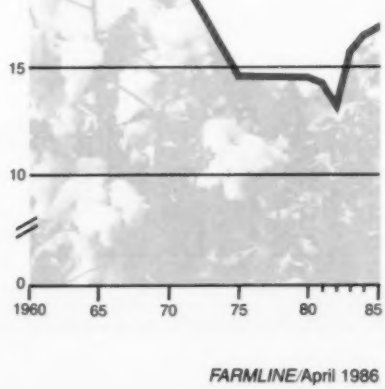
Townsend agrees. The industry has come far in regaining its domestic markets and the interest of American consumers following two decades of losses to the manmade fiber industry.

"Remember, cotton always had the corner on 50 or 60 percent of the fiber market," Townsend says. "Then, along came polyester around 1963. People saw it as something of a miracle fiber, something new and very fashionable."

The result: Cotton's traditional markets—clothing, home furnishings, and industrial uses—began to wane. By 1975, cotton's share of the fiber market was down to around 30 percent.

"Although cotton's share of the fiber market dipped into the 29-percent range during the next few years," Townsend says, "it's gradually regaining some strength." In 1985, cotton's percentage of the fiber market hit a 10-year high at 30.3 percent. "And we expect to see significant increases in the next few years," Townsend adds.

U.S. Consumers Used More Cotton in 1985 Than They Had In a Decade



The "Seal of Cotton" is one of the most recognizable symbols in industry today.

Cotton's comeback required a little compromise in the industry, however. "Initially, a product was either 100-percent cotton or 100-percent polyester. Neither industry was interested in combining their fibers. In the end, however, blending was the answer, especially for cotton," Townsend says. Many scientists argued that blending would combine the best features of both fibers: cotton's durability, and its ability to "breathe," with polyester's strength and easy-care practicality. In the 1970's, most of the blends were predominantly polyester, probably because of cotton's tendency to wrinkle. But new weaving techniques improved cotton's wearability, and the percentage of the fiber's content in many fabrics is increasing.

It's a Natural

"Natural Blend®" fabrics of at least 60-percent cotton are becoming common, according to Townsend. The current industry standard for men's dress shirts is a 60/40 blend, with the emphasis on cotton's share of the fibers. Though this standard has been tagged a Natural Blend® by the cotton industry, it's called a "reverse blend" by the manmade fiber industry. "The original industry-standard blend for men's dress shirts was 65/35, in favor of polyester," Townsend says.

How much of this increase can be attributed to consumer preference? "Another difficult assessment," Townsend says, "but many industry surveys point toward a renewed interest in natural fibers. It seems that American women are especially conscious of the fiber content of clothing and household products."

Fashion trends for women may actually be a great indicator of what's ahead for fibers. "The women's apparel area responds sooner and more intensely to market changes," says Brockman of Cotton, Inc. According to industry figures, cotton's share of the women's apparel market hit a low of 16 percent in 1975. Last year, cotton constituted 33 percent of the fibers used in women's clothing. Brockman expects to see this figure increase every year. And, he says, consumers are definitely demanding cotton-rich products. "When consumers demand cotton, retail stores demand it from the apparel manufacturers, who in turn demand cotton fabrics from the mills, which results in the mills purchasing a greater number of bales of cotton."

U.S. mill use of cotton hit a 5-year high of 5.9 million bales in 1985. "In 1986, we expect to see a mill use of about 6.2 million bales," Townsend says.

This significant increase in use may have one other notable cause: price. The price differential between cotton and manmade fibers is disappearing.

Cotton's Competitive Price

Cotton used to cost considerably more than comparable manmade fibers. Throughout the 1970's, cotton's cost was an average 25 percent higher. In the 1980's, however, prices have gotten closer together. Right now, cotton prices are just slightly more. "But, following the implementation of the cotton provisions in the new farm bill, cotton could cost less than polyester," Townsend says. This hasn't happened since the 1960's and early 1970's when manmade fibers were still catching on and the economies-of-scale in production had not reached their current levels.

"The general perception now is that cotton will remain cheaper than polyester for some time," he adds.

The new farm bill (officially tagged the Food Security Act of 1985) will play a major role in keeping cotton competitive, price-wise. This farm bill mandates that USDA set the cotton loan rate at the world price, which, using early April figures, is about 40 cents. (The current loan rate is 57.3 cents.) The objective is to make U.S. cotton competitive on world markets, and analysts expect U.S. cotton exports to increase substantially as a result.

If the farm bill's cotton provisions were already implemented, the cost of cotton at the gin would be about 40 cents. (Provisions will take effect on August 1.) Compared with production costs for manmade fibers—at about 45 cents per pound if you consider variable costs and around 60 cents a pound for full costs—cotton would have the advantage.

With this kind of outlook, some mills have already increased the percentage of cotton they use in fabrics, Townsend says.

What does all this mean to the U.S. cotton farmer? It doesn't mean too much right now, the economist says. "But, in the long run—maybe two or three seasons from now—it could mean higher farm prices.

"As existing stocks are depleted, and supplies are more in line with demand, farm prices will rise. Then, it will be up to cotton to fight to maintain its improved market share relative to manmade fibers." □

[Based on information provided by USDA economists Terry Townsend and Sam Evans of the National Economics Division, Economic Research Service.]

"Natural Blend®" fabrics of at least 60 percent cotton are becoming common. The current industry standard for men's dress shirts is a 60/40 blend, with the emphasis on cotton's share of the fibers. *Photo courtesy of Cotton, Inc.*

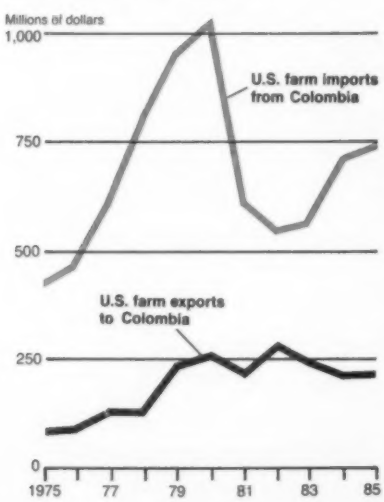
Competing for the Colombian Market

Colombia is one of the top Latin American markets for U.S. agricultural exports. Our farm exports to Colombia have increased five-fold since 1970 and are expected to go much higher than the $215-million level reached last year.

After slumping in the last few years, U.S. agricultural sales could rise to around $400 million by 1990, according to economist Christine Bolling of USDA's Economic Research Service. "Purchases of wheat, feed grains, and oilseed products are likely to grow substantially during the late 1980's, mostly because Colombia is climbing out of its economic doldrums."

Colombia, like many of its Latin neighbors, has been handicapped by heavy foreign debt and erratic or declining commodity prices since 1981. In Colombia's case, the major commodity affected has been coffee. Wholesale coffee prices dipped to $1.22 per pound in 1981, the lowest price since 1978. Prices remained in the $1.22 to $1.43 range through 1985 before jumping to more than $2 in early 1986.

U.S. Farm Sales to Colombia Have Nearly Tripled Since 1975, But Are Outpaced by U.S. Imports of Colombian Farm Products



"Coffee is critical to Colombia," says Bolling, "because it provides roughly half of the nation's export earnings."

With its fortunes either cresting or crumbling on the basis of coffee beans, Colombia has recently been reaping a windfall.

Brewing Higher Coffee Prices

Higher coffee prices have been brewed up this year by a drought in Brazil (Colombia's major competitor) that drastically cut world supplies. Moreover, Bolling says, prices paid for the higher-quality Colombian coffee beans are better than average—about 15 cents more a pound than other mild coffee beans as of April 1986.

The result: a sharp upsurge in Colombia's foreign exchange earnings. This situation, however, isn't likely to last much beyond 1987, Bolling says. "Unless something else comes along, the Colombian economy will return to a more normal condition."

That means the growth in food imports from the United States, particularly of wheat, will be driven largely by population increases. "By 1990, Colombia will probably have five million more people, raising the population to about 33 million."

Bolling projects Colombia's wheat imports at 710,000 tons in 1990, an increase of nearly 60 percent from the 1979-81 average of 448,000 tons, of which the U.S. share was 98 percent.

She also sees a doubling of feed grain imports to 433,000 tons, compared with the 1979-81 import average of 210,000 tons, when the U.S. share was also nearly 100 percent. "Feed grain imports will depend, in part, on how rapidly Colombia decides to expand its domestic poultry and pork industries."

From a much more modest level, soybean meal imports should increase seven-fold to 37,000 tons from the 1979-81 average of 5,000 tons.

Competition for Colombia's Market

"The prospects for U.S. farm exports to Colombia will rest on how well U.S. traders compete with other suppliers including Argentina, Brazil, and Canada, and the improvement in Colombia's balance-of-payments," Bolling says.

Higher prices have been brewed this year for premium Colombian coffee beans because of the drought in Brazil.

She notes that "its task in coming to terms with foreign debt is made easier over the long-term because it was a much more conservative borrower than other Latin American nations."

Colombia is now the fourth largest Latin American market for U.S. agricultural exports after Mexico, Venezuela, and Brazil.

Although a major buyer, it maintains a healthy surplus in its farm trade with the United States. In 1985, Colombia sold $759 million worth of farm goods to the United States, or about $540 million more than it imported.

Coffee alone constituted about $467 million of those exports. Colombia's heavy dependence on coffee exports has created a growing determination to diversify into other cash crops.

"Production of cut flowers has grown tremendously," says Bolling, "and this industry has emerged as a major foreign exchange earner. The Colombians are also developing a shrimp farming industry."

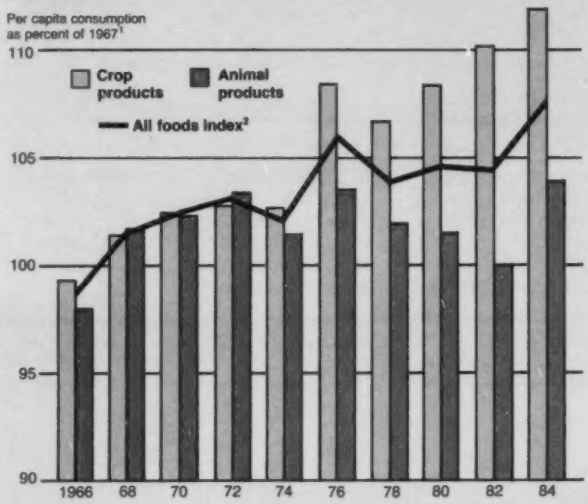
Export earnings from the nonfarm sector could also rise, especially if Colombia chooses to aggressively develop its nickel, coal, and petroleum reserves.

But at least two of its other exports—cocaine and marijuana—are not welcomed by U.S. government officials. □

[Based primarily on information provided by economist Christine Bolling of the International Economics Division, Economic Research Service.]

A Look at America's Menu

Americans Are Consuming More Food Per Person . . . With Crop-Based Foods Gaining at a Faster Rate Than Animal Products



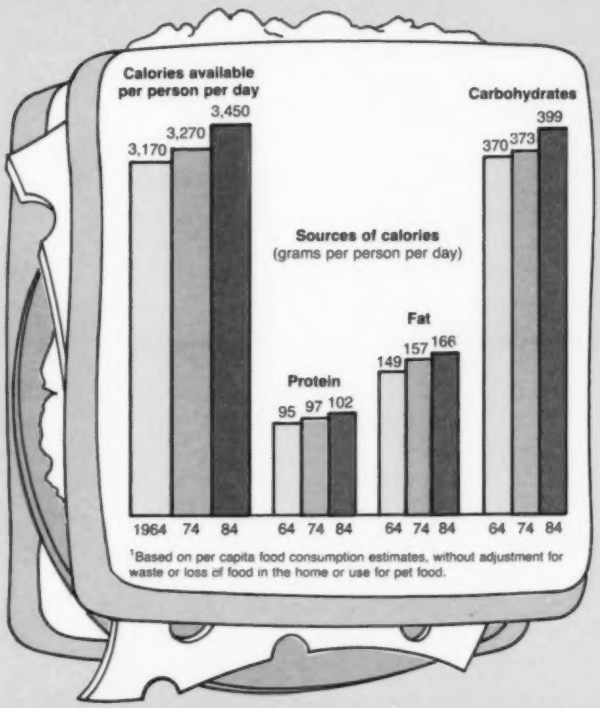
[1]Quantity of individual foods are on a retail-weight basis and are combined with indices using constant retail prices. Consumption data measure "use" of food products rather than what is actually eaten and may include spoilage, waste, use for pet food, etc.[2] Excludes some foods for which data are not available.

Consumption Figures for Different Foods Show Some Gainers . . . And Some Losers

	1964	1974	1984	Change, 1964-84
	pounds per capita[1]			percent
Some gainers				
Low-fat milk[2]	8.7	46.4	80.7	+827.6%
Corn sweeteners	18.1	30.9	77.3	+327.1%
Chicken & turkey	38.8	49.9	67.5	+74.0%
Beer (gallons)	16.5	21.8	24.9	+50.9%
Fresh lettuce	18.9	21.8	24.6	+30.2%
Fresh bananas	16.9	18.5	22.1	+30.8%
Shortening	13.8	16.9	21.3	+54.3%
Tomato products	13.9	17.6	19.0	+36.7%
Fish	10.5	12.1	13.6	+29.5%
American cheese	6.2	8.6	12.0	+93.5%
Rice	7.1	7.5	8.6	+21.1%
Potato chips	3.6	3.9	4.5	+25.0%
Frozen broccoli	0.7	1.0	1.7	+142.9%
Some losers				
Whole milk	248.7	180.0	125.2	−49.7%
Refined sugar	96.8	95.6	67.5	−30.3%
Fresh potatoes	70.9	45.5	49.7	−29.9%
Eggs (dozen)	40.3	36.0	33.0	−18.1%
Coffee	11.6	9.6	7.7	−33.6%
Canned peas	4.1	3.5	2.4	−41.5%
Lard	6.2	3.2	2.1	−66.1%
Canned cherries	1.3	0.7	0.5	−61.5%

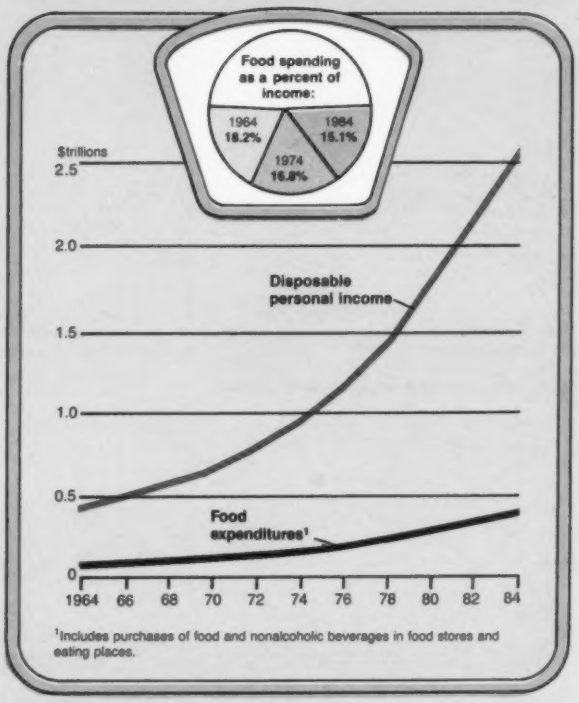
[1]Retail weight basis. [2]Per capita sales.

The Calorie Count Is Up Since 1964, With Most of the Increase from Fats and Carbohydrates[1]



[1]Based on per capita food consumption estimates, without adjustment for waste or loss of food in the home or use for pet food.

But the Calories Come Cheaper When Food Bills Are Measured Against Incomes



[1]Includes purchases of food and nonalcoholic beverages in food stores and eating places.

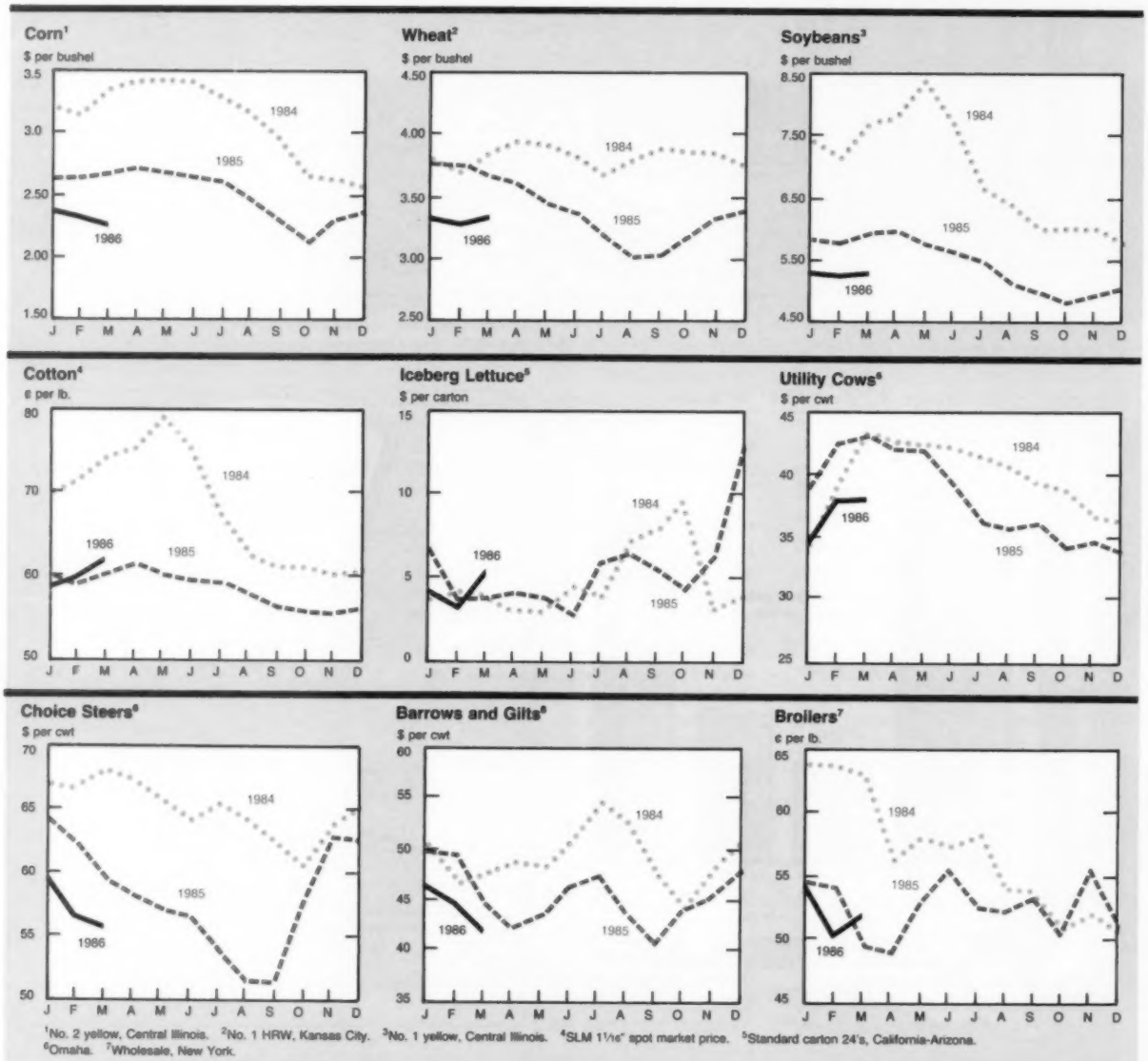
Data from the report, *Food Consumption, Prices, and Expenditures, 1964-84*, published by the Economic Research Service and compiled by economist Karen Bunch.

FARMLINE TRENDS

Monthly Price Monitor

USDA's March index of farm prices declined 0.8% and was almost 10% below its year-earlier level. Corn dropped 4¢ to $2.29 per bushel. Wheat edged up to $3.36, the highest since December 1985.

Soybeans rose slightly to $5.31. Cotton climbed to 61.8¢ a pound, the highest since August 1984. In the meat animals area, utility cow prices held fairly steady, while choice steers dropped to $55.50, a decline of more than $7 since last December. Barrows and gilts slipped to $41.66, while broilers showed some price strength. Comparing March 1986 with March 1985, corn was down 40¢, wheat down 31¢, soybeans down 59¢, choice steers down more than $4, and barrows and gilts down about $3. All prices shown are monthly averages.



[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1 1/16" spot market price. [5]Standard carton 24's, California-Arizona. [6]Omaha. [7]Wholesale, New York.

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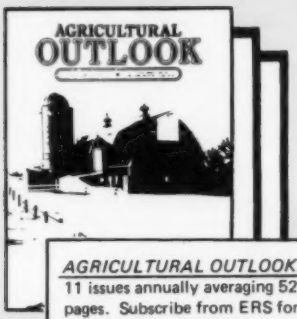

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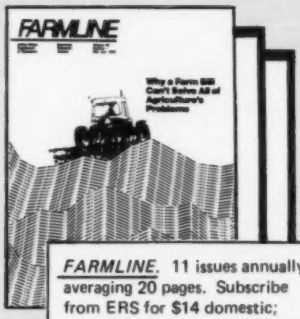

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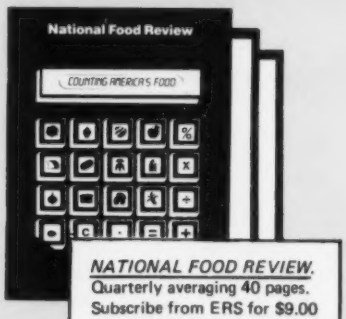

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